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SUBJECT: DEPUTY SECRETARY NEGROPONTE'S MEETING WITH THE AMERICAN
BUSINESS COUNCIL

¶1. (SBU) SUMMARY: Deputy Secretary Negroponte and Assistant Secretary Boucher met with the elected Executive Board of the American Business Council (ABC) in Karachi on March 27. Representatives from U.S. companies were optimistic about Pakistan's investment climate but expressed concerns over the impact of the energy crisis on the manufacturing sectors, the need for consistency in economic policies with the newly installed federal government, the lack of qualified or skilled workers graduating from the Pakistani educational system, the lack of patent protection afforded pharmaceutical products, and the overall law and order situation impacting the "already negative" international perceptions of Pakistan. END SUMMARY.

¶2. (SBU) Deputy Secretary Negroponte and Assistant Secretary Boucher met with the elected Executive Board of the American Business Council (ABC) in Karachi on March 27. Representatives from Colgate-Palmolive, Lakson Tobacco, JP Morgan, Dell, ACE Insurance, Abbott Laboratories, Wyeth Laboratories, Gillette, Gerry's International, Pfizer, and IBM attended.

¶3. (SBU) The free flowing discussion covered a range of issues of critical importance to American investors in Pakistan. Noting that on average thirty-seven percent of all foreign direct investment into Pakistan over the last 17 years has been from the United States, ABC members expressed continued optimism overall about the investment climate. ABC members noted that, despite the political problems and the riots after the Bhutto assassination, 2007 was the most profitable year for American companies in Pakistan. The ABC cited examples of planned expansions such as IBM which is doubling activities in Pakistan, Procter and Gamble which is bullish with plans to set up two new plants to supply the domestic market and their own power plant, and Abbott Laboratories which has its second largest plant in the world outside of Karachi.

¶4. (SBU) The ABC noted that the economic policies of the Musharraf regime had been very successful and the new government would need to continue with these reforms. They expressed hope that there would be consistency of economic policies without the "yo-yoing of the past." The ABC also explained that Pakistan needs to move forward with second generation economic reforms such as reducing the dependency on subsidies for fuel and food, expanding the tax base, restarting privatization efforts, and continuing to increase the overall transparency. While noting that the overall law and order situation obviously impacts any plans for expansion, the ABC stated that the continued negative media coverage which increases the "already negative international perceptions of Pakistan" is a bigger threat to their business.

Energy

15. (SBU) Noting that there had been an eight hour blackout the previous night, the ABC reps collectively stated that "dealing with the energy problems needs to be the number one priority of the new government." In response to the Deputy Secretary's question about how the energy crisis is affecting manufacturing, ABC members noted that most large scale manufacturing plants in Pakistan have their own power generation source, but the bulk of industry relies upon a combination of state supplied power and self generation. Typically this self-generated power was used solely as back-up power but due to the rising diesel prices and the excessively long blackouts, the basic supplies of raw materials and manufactured inputs have been impacted. Local producers simply cannot meet orders and provide the needed quantities, resulting in increased imports for ABC members to ensure that stocks are on hand to meet basic supplies of essential inputs.

Intellectual Property Rights (IPR)

16. (SBU) Turning to IPR, the group noted the inability of the government to pass data protection legislation for pharmaceutical patent protection. Expressing frustration at both the length of time and the cumbersome process, the ABC asked that we "not let Pakistan off the hook in the 301 process." Representatives noted that Pakistan is not meeting its minimum obligations under Treaty Related Intellectual Property in Services (TRIPS) and that local companies are bringing in the generic versions of most drugs before a company can apply for a legitimate patent.

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Education

17. (SBU) In response to the Deputy Secretary's question about how the U.S. could best help Pakistan, the ABC ranked education second after energy, in terms of the most needed policy changes. All ABC members noted that they were unable to find qualified employees, despite the high unemployment rate in Pakistan. They cited the lack of qualified or skilled workers graduating from the Pakistani educational system and expressed hope that the U.S. could assist in improving the skilled workforce.

Continued Engagement

18. (SBU) ABC members also raised restarting negotiations for the Bilateral Investment Treaty and implementation of the Reconstruction Opportunity Zones as critical to expanding the bilateral relationship. They noted that the U.S. will have a key role to play in the economic policies because neither the Pakistan Muslim League-Nawaz (PML-N) nor the Pakistan People's Party (PPP) has developed a detailed economic policy and "have been out of the country for too long to know what the actual economic policies are in practice." The Deputy Secretary noted that the U.S. shares with the ABC a "common interest in seeing stability and prosperity in Pakistan which will further economic development."

19. (SBU) Pakistani representatives of American business interests who attended the meeting were: Mr. Tasleemuddin Ahmed Batlay, Director of Colgate-Palmolive; Mr. Arshad Rahim Khan, Managing Director and Chief Executive of Wyeth (pharmaceuticals); Mr. Humayun Bashir, Country General Manager of IBM; Mr. Asif Jooma, Managing Director of Abbott Laboratories; Mr. Saad Amanullah Khan, Chief Executive Officer of Gillette; Ms. Zehra Naqvi, Chief Executive of ACE Insurance; Mr. Akram Wali Mohammad, Managing Director of Gerry's International (air cargo and ground-handling services company); and Mr. Reza-ur-Rahim, Senior Country Officer

and Head of Investment Banking in Pakistan for JP Morgan.

¶10. (U) This cable has been cleared with the Deputy Secretary's staff.

PATTERSON